

## Appendix 2 – Capital Strategy

### Capital Strategy 2023 - 24 to 2027- 28

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## **Introduction**

This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how associated risk is managed by the council.

The Capital Strategy reflects the Council's capital investment and financing intentions in December 2022. Due to the current economic uncertainties and the Council's ongoing response which may impact the future development of its capital intentions, along with the potential effect of a new administration in May 2023 following the council elections.

## **Our Strategic Aims & Objectives**

The Council's Corporate Plan 2022-2025 was last approved by Council on 25 January 2022, and is available on the Council's website [here](#). The plan sets out the Council's priorities that represent the challenges and opportunities facing the District Council over the medium term.

Under the Corporate Plan the Council's priorities are:

- Homes for all
- Thriving Economy
- Supported Communities
- Financial Prudence
- A Cared-For Environment

Each of these priorities are underpinned by several objectives that set out what the Council aims to achieve and the success measures for the identified actions to be undertaken.

### **How we will deliver**

- Focus on our residents' needs
- Push for sustainable change across the District
- Work in partnership to benefit Chichester District
- Lobby for Chichester's interests both regionally and nationally
- Provide quality public services
- Make best use of our resources, including seeking grant funding
- Adopt modern and efficient working practices

## **Environmental Sustainability**

Following the Declaration of a Climate Emergency in 2019, the Council has committed to working towards a carbon emissions reduction across the district of 10% year-on-year until 2025, supporting the national drive to deliver net zero carbon by 2050.

A Climate Emergency Initial Action Plan was approved by the Council in January 2020. This contained a target to reduce emissions by 10% year-on-year between year-end 2019 and year-end 2025. A detailed action plan has been drawn up. It includes a recommendation for the council to reduce its own operational emissions by 10% year-on-year between year-end 2019 and year-end 2025. Both targets will require considerable effort on multiple fronts.

In this initial action plan the council committed itself to:

- Put in place a system for identifying those CDC decisions with impacts on carbon emissions, air quality and biodiversity and ensure that negative impacts are avoided or mitigated.
- To align our council statutory and non-statutory plans, policies and guidance with respective carbon reduction pathways and biodiversity restoration plans, including procurement.

Environmental sustainability is a key consideration in capital investment decisions. Caring for the environment is a Council priority and pushing for sustainable change across the district is important for all Council projects and is achieved through the governance process by requiring consideration and reporting of environmental sustainability in all Cabinet and Full Council decisions. Service Plans capture the environmental strategy plans which capture all environmental/sustainability actions with performance targets. The capital projects are captured in full detail in the service plan and include performance management through SMART targets from procurement through to design and implementation.

More about the Council's response to climate change can be found on the Council's website at <https://www.chichester.gov.uk/climatechange>

## **How we select and prioritise capital investment**

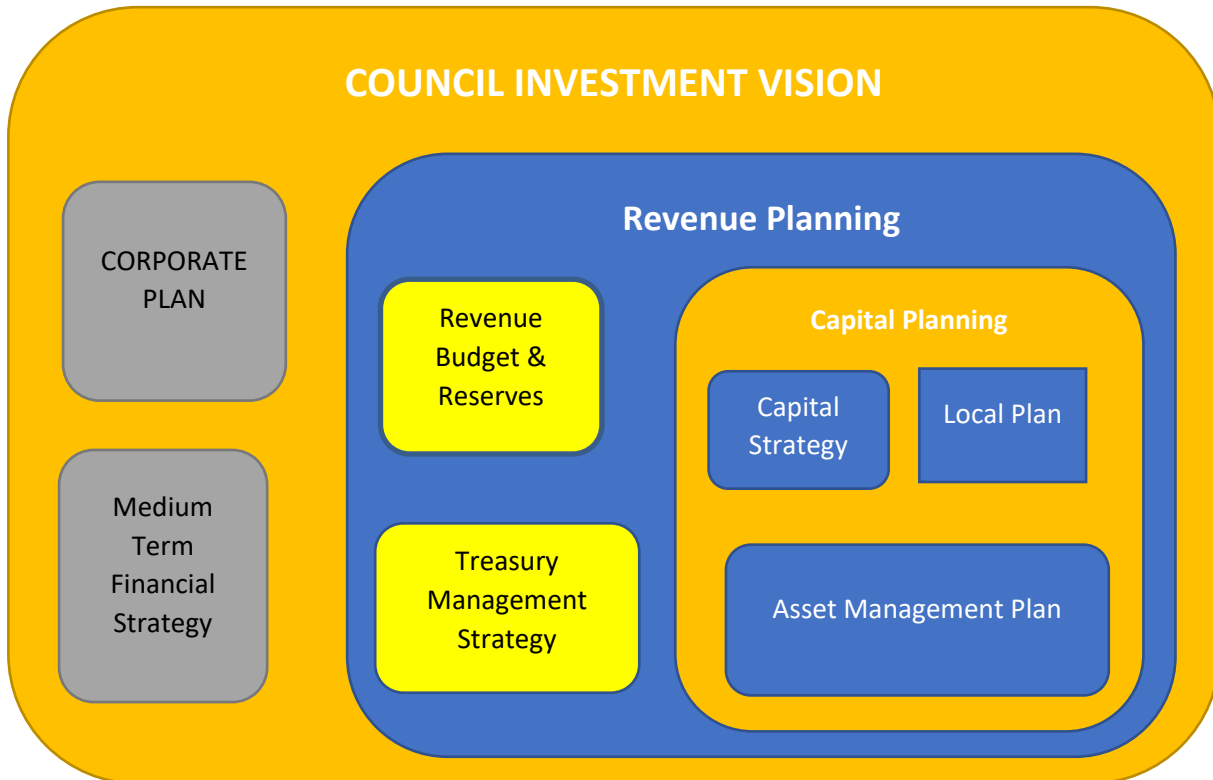
The Council's Corporate Plan and Key Financial Principles, which underpin the Council's approach to financial management of the financial affairs of the Council, and its decision about capital investment and asset management planning.

The Council currently uses the Future Services Framework (FSF) prioritisation tool to understand its priorities each year through a ranking process with political groups of the council. Members are provided with information packs on all new and contractually uncommitted schemes and are asked to rank those schemes within their political groups. The results are combined and politically weighted and presented back to Council with recommendations based on the ranked results. The low-ranking items are not recommended to come forward but high-ranking items are. However, the FSF is a guidance tool to aid officers understanding of members' priorities and which schemes supported are still subject to further assessment by both members and officers before approval of a significant scheme.

## Strategic Planning Framework

The Council's strategic planning framework is set out below:

Diagram 1: Strategic Planning Framework



### Approach and Approval Process

Linked to the main financial management objective:

1. The Council maintains a **5 year rolling medium term financial strategy model** which is underpinned by the key financial principles.
2. The **key financial principles**, along with an annual position statement is reported to the Corporate Governance and Audit Committee for their consideration in relation to managing the strategic risk of financial resilience and considering the minimum level of general fund reserves that should be held. The Committee's recommendations are incorporated into the annual Financial Strategy report, considered by both Cabinet and Council ahead of the budget report for the annual budget and council tax setting required prior to the start of the new financial year.
3. A **statement of resources** is maintained to identify the current level of reserves, the commitments against those reserves, and therefore the potential funds available for the Council to invest in new schemes.

4. In year **quarterly revenue monitoring** is undertaken to identify trends and cost pressures which will inform the revenue budget for the forthcoming financial year and beyond. Along with the planned spending on capital and asset replacement projects against the approved programmes.

Under the umbrella of the **Financial Strategy** are other linked key policies and strategies which assist with ensuring the robust financial management of the Council. These are:

- the **Treasury Management and Investment Strategies** – cashflow management linked to the spending plans of the Council and the investment of surplus funds
- the **Capital Strategy** – a corporate strategy that is a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how the risks are managed by the Council.

Both these strategies are updated considering any legislative changes, or relevant good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council maintains a 5 year capital programme linking the available resources directly to corporate priorities and taking into account revenue implications within the 5 year Financial Strategy Model.

There is also a 5 year planned programme to replace the assets used by the Council to deliver its services, developed from the 25 year Asset Replacement Programme Model. This is updated annually as part of the budget cycle and is in line with the Council's key financial principles; specifically, financial principle 3, that assets are maintained/ replaced, and that the investment is sustainable by not using reserves for ongoing expenditure.

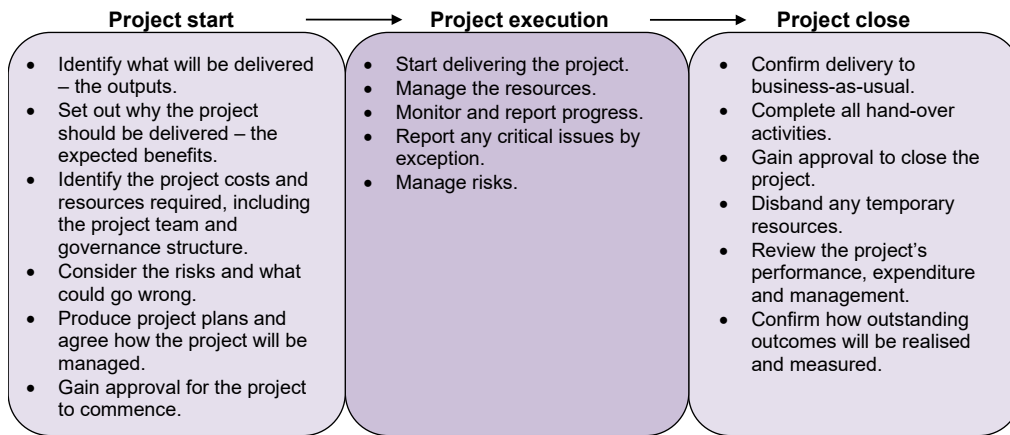
Cabinet is responsible for the acquisition, management, maintenance, and disposal or letting of all council properties together with review and implementation of the Council's Asset Management Plan and this Capital Strategy. The Director of Growth & Place has delegated authority to let, manage, repair and maintain properties.

The Directors of Corporate Services and Growth & Place are responsible for providing professional advice to Cabinet and Council in the discharge of these function; with the Director of Corporate Services being responsible for making arrangements for raising and repaying loans as necessary and overall treasury management of funds until they are required.

## **Project Management**

The Council has a corporate Project Management Guide to aid lead officers and ensure a consistent approach to all projects.

- Projects are different from everyday operations
- All projects will follow a basic three stage process to aid those involved fully understand what needs to be done to manage and deliver the project:



- There are various documents and mechanisms which lead officers may need to produce and use as part of the governance arrangements for projects.

<b>Initial Project Proposal Document (IPPD)</b>	Project Start	Mandatory: Medium & Large Projects
<b>Project Initiation Document (PID)</b>	Project Start	Mandatory: Medium & Large Projects
<b>Options Appraisal</b>	Project Start	Mandatory: Large Projects
<b>Pentana Performance Updates</b>	Project Execution	Mandatory: Medium & Large Projects
<b>Issues Log</b>	Project Execution	Recommended: All Projects
<b>Risks Log</b>	Project Start & Execution	Recommended: All Projects
<b>Project Plan</b> (initially included in the PID)	Project Start	Recommended: All Projects
<b>Lessons Learnt Log</b>	Project Close	Recommended: All Projects
<b>Post Project Evaluation Document (PPE)</b>	Project Close	Mandatory: Medium & Large Projects

## Governance Arrangements

For projects to be effectively managed they require clear governance for the life of the project, with responsibilities and accountabilities clearly understood. The Council's expectations in terms of project roles are listed below.

Who	What
<b>Council</b>	<ul style="list-style-type: none"> <li>• Approves the Council's budget spending plans, including the Capital Programme and the Council Tax for the year ahead.</li> <li>• Adopts the Corporate Plan which sets out the Council's future priorities and objectives.</li> </ul>
<b>Cabinet</b>	<ul style="list-style-type: none"> <li>• Is responsible for the review and implementation of the Council's Asset Management Plan, Asset Renewal Programme and the Capital Strategy.</li> <li>• Annually reviews the Corporate Plan and considers existing and future Corporate Plan projects.</li> <li>• Agrees the Corporate Plan and approves all related IPPDs for medium and large projects.</li> <li>• Approves PIDs for large projects.</li> <li>• Receives PPE documents for large projects.</li> <li>• Receives exception reports for large projects covering any critical issues such as changes (realised or anticipated) to the business case; including any reduction to the expected benefits, the project plan, level of risk, or variation against the project budget as considered appropriate by SLT or the Senior Responsible Owner.</li> </ul>
<b>Cabinet Member</b>	<ul style="list-style-type: none"> <li>• Has responsibility for the delivery of projects within their portfolio.</li> <li>• Must be involved in the development and consideration of all IPPDs, PIDs and PPEs within their portfolio and must agree the content before it reaches Cabinet.</li> <li>• The Cabinet Member with responsibility for Finance must consider the project costs outlined in the IPPD and PID for large projects following SLT sign-off and before they are agreed by Cabinet.</li> <li>• The Cabinet Member with responsibility for Finance and Corporate Services has overall responsibility for the Project Management process.</li> </ul>
<b>All Members</b>	<ul style="list-style-type: none"> <li>• Review the performance against the Capital Programme via quarterly Pentana reports.</li> <li>• Review performance against projects contained in the Corporate Plan via a mid-year Pentana report.</li> </ul>
<b>Overview &amp; Scrutiny Committee</b>	<ul style="list-style-type: none"> <li>• Reviews performance against projects contained in the Corporate Plan.</li> <li>• Reviews the outcomes and benefits achieved for projects it feels appropriate.</li> </ul>
<b>Business Routeing Panel</b>	<ul style="list-style-type: none"> <li>• Considers the Council work plan.</li> <li>• Decides whether a new project should have member involvement and whether certain stages of a project should be routed to a specific committee or Task and Finish Group.</li> </ul>
<b>Senior Leadership Team</b>	<ul style="list-style-type: none"> <li>• Acts a Project Management Board.</li> <li>• Receives all IPPDs, PIDs, and PPE documents and agrees next steps.</li> <li>• Monitors progress of projects, mainly by exception.</li> </ul>

Who	What
	<ul style="list-style-type: none"> <li>• Receives requests for changes (realised or anticipated) to the business case; including any reduction to the expected benefits, the project plan, level of risk, or variation against the project budget and will refer to Cabinet as appropriate.</li> <li>• Supports Cabinet in the annual review of the Corporate Plan.</li> <li>• Considers the Council work plan and supports the Business Routeing Panel.</li> <li>• The Director of Corporate Services has overall responsibility for the Project Management process including training.</li> </ul>
<b>Corporate Improvement Team</b>	<ul style="list-style-type: none"> <li>• Review all IPPDs and PIDs for medium and large projects before they are signed off by the Senior Responsible Owner.</li> <li>• Maintain a schedule for when medium and large projects should report the PPE and any further reporting of benefits not yet realised.</li> <li>• Where requested by SLT (on a basis of corporate risk), a member of the team will form part of the project's governance structure by assuming either a project assurance or external challenge role.</li> </ul>
<b>Senior Responsible Owner (SRO)</b>	<ul style="list-style-type: none"> <li>• Will normally be a member of SLT but could be a senior manager for small projects.</li> <li>• Champions the project and has overall responsibility for its delivery.</li> <li>• Ensures that the business case is sound and manages the approval of the project.</li> <li>• Responsible for ensuring that an initial kick off meeting takes place with all the anticipated key players to discuss the vision of the project and likely issues (e.g., financial, legal, ICT) to allow for an early understanding of the level of support required internally. At this stage the SRO must also establish what level of project assurance is required. For all large projects this must include a representative of the Section 151 Officer. Where project assurance is required the SRO must ensure there is sufficient capacity for the role to be fulfilled.</li> <li>• Identifies the core Project Team at the kick-off meeting including the Project Manager and a substitute in case the Project Manager is absent.</li> <li>• Provides support to the Project Manager.</li> <li>• Ensures the Project Manager has all the resources necessary to deliver the project and has sufficient time to project manage. There is a risk that if the Project Manager is undertaking lots of tasks on the project (as a normal project resource) then they will not be able to monitor the overall project and could be too late to react to issues as required.</li> <li>• Resolves any issues at a level outside the scope of the Project Manager, for example resources/priorities.</li> <li>• Refers issues by exception to SLT.</li> <li>• Reports to the relevant Cabinet Member, Cabinet, Overview and Scrutiny Committee or Corporate Governance and Audit Committee as required.</li> <li>• Ensures the relevant Cabinet Member is engaged in the development and agreement of the IPPD, PID and PPE.</li> </ul>
<b>Project Manager</b>	<ul style="list-style-type: none"> <li>• Will normally be a senior manager or an appropriately qualified officer and can sit outside the project service area.</li> <li>• The role should not be shared and is the single focus for day-to-day management of the project.</li> <li>• Responsible for producing project documentation including the PID and PPE.</li> <li>• Manages the project delivery including management of the project budget and Project Team (where appropriate).</li> </ul>



Who	What
	<ul style="list-style-type: none"> <li>• Responsible for ensuring effective completion of the project as specified in the PID.</li> <li>• Keeps the SRO regularly informed of progress and of any significant deviation from the project plan (realised and anticipated).</li> <li>• Responsible for routing relevant project documentation through the Corporate Improvement Team and ensuring the project details, together with the approved budget and project milestones, are added to Pentana and kept up to date.</li> <li>• Responsible for producing progress updates for Pentana.</li> <li>• Ensures project team meetings are arranged as appropriate.</li> <li>• Provides reports as required by the SRO.</li> </ul>
<b>Project Team</b>	<p>Not all projects will require a team for delivery. For some it will mean a cross service officer team, whilst others will also have member representation.</p> <ul style="list-style-type: none"> <li>• A Project Team should be made up of officers who have the required skills, experience and knowledge to deliver the project.</li> <li>• Project Team members must be identified in the PID and their participation must be agreed by the relevant Director to ensure there is enough capacity to support the project.</li> <li>• Project Team members must fully understand their roles and responsibilities.</li> <li>• The Project Team is responsible for carrying out tasks allocated by the Project Manager in accordance with the PID and is collectively responsible for the delivery of the project.</li> <li>• Provides progress updates to the Project Manager (at a frequency to be defined by the Project Manager) and raise issues as they occur.</li> <li>• The size of the Project Team can vary depending on the type and scope of project.</li> </ul>

## Our investments

The Council holds a significant portfolio of investments, principally categorised into:

- Treasury investments, which arise from the organisation's cash flows or treasury risk management activity;
- Commercial investments, which are held primarily for financial return and are not linked to treasury management activity or directly part of delivering services; and
- Service investments, which are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

The Council's overall projection of each type of Investment over the medium term is shown below (£m)

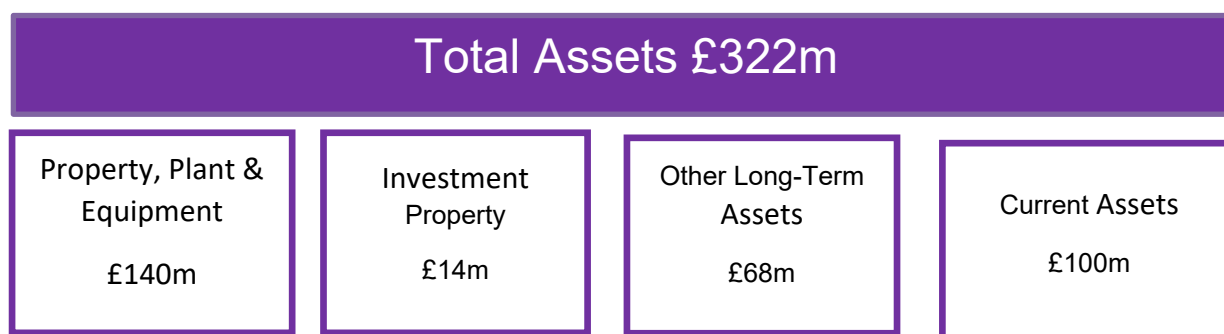
Treasury investments (£m)	2023	2024	2025	2026	2027
Near-term investments	23	23	23	23	22
Longer-term investments	40	45	45	45	45
<b>TOTAL</b>	<b>63</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>67</b>

Commercial Investments (£m)	2023	2024	2025	2026	2027
Investment portfolio	14	14	14	14	14

Service Investments (£m)	2023	2024	2025	2026	2027
	1	1	1	1	1

## Our Assets

The Council's asset base on 31 March 2022 was



## Capital Programme

The Council's present capital intentions are summarised in Table 1

*Table 1: Capital programme and major schemes 2022/23 to 2027/28*

Capital Expenditure (£m)	2022/23	2023/24	Later	Total
Total approved spend **	32.23	7.26	33.39	72.88
Major schemes – approval by year				
Projects and Schemes (To be completed)				
St. James Industrial Estate - Refurbishment and Replacement of Units	3.28	-	-	3.28
Southern Gateway Project	2.24	-	-	2.24
Disabled Facilities Grants	2.93	1.35	5.40	9.68

Capital Expenditure (£m)	2022/23	2023/24	Later	Total
Other Capital Projects	6.20	0.54	0.98	7.72
Infrastructure Business Plan (To be completed)				
CIL - School places	3.00	-	6.00	9.00
CIL - Bus Lane along A259 approaching Bognor Rd Roundabout (IBP/354)	0.10	.020	1.93	2.23
CIL - Oaklands Way Cycle Scheme (IBP/937)	-	-	3.00	3.00
CIL - Coast Protection - Selsey East Beach - raising of the sea wall (IBP/287)	-	-	5.00	5.00
CIL - Rebuilding and expansion of Westhampnett Waste Transfer Station/Household Waste Recycling Sit. (Project IBP/710)	0.25	2.25	-	2.50
CIL - Southern Gateway provision of bus/rail interchange & improvements to traffic & pedestrian circulation. (Project IBP/206)	3.00	-	-	3.00
CIL - Southern Gateway public realm with new city square. (IBP/775)	1.00	-	-	1.00
CIL - Early Years Places, Whitehouse Farm Development (IBP/593)	-	-	2.10	2.10
Other Infrastructure Projects	4.72	0.22	1.58	6.52
Asset replacement programme (To be completed)				
Vehicle Replacement	2.70	1.40	2.40	6.50
Public conveniences Refurbishment	0.70	-	-	0.70
Other asset replacements	2.10	1.3	5.00	8.40

## Affordability

The Council recognises that, due to its nature, the capital programme is constantly changing, so the resource position is regularly updated and monitored to ensure that the programme remains affordable. The Council's resource projection as of 14 December 2022 is shown below.

*Table 2: Resources available to finance our Capital programme (£m)*

Resources to 31 March 2026	Total
Reserves at April 2022	66.908
New Resources expected in period	
- Capital receipts	-
- Interest	1.52
- Revenue contributions	9.05
- External income, including CIL	46.57
	2.80

Resources to 31 March 2026	Total
- New Homes Bonus	0.10
- Lower tier support grant	
	126.90
<b>Total Resources</b>	
<b>Less commitments</b>	<b>-24.39</b>
- Earmarked revenue funding	-4.00
- Minimum Reserves Provision	-5.00
- LEP Grant	-8.00
- COVID 19 Recovery	-0.30
- Other	
<b>Capital Programme</b>	<b>-57.25</b>
- Approved capital projects	-15.63
- Current Asset replacements	
<b>Available Uncommitted Resources</b>	<b>12.36</b>

Tables 1 and 2, taken together demonstrate that the Council currently expects to be able to fully fund its approved capital and asset replacement programmes from existing and expected resources.

The main risk managed by the Council is that the expected resources shown in the table above will not be received or will be received significantly later than forecast. To mitigate this risk, in the above analysis the Council has not anticipated any income from capital receipts.

The receipt of capital resources is closely monitored by the Council's Finance and Estates teams and is regularly reported to the Portfolio holder and to Cabinet. An annual statement on resource projections against capital needs is included with the Council's financial strategy that is presented each year to full Council for approval.

An assessment is made by the Council's Director of Corporate Services of the best financing method for all major capital investments at the earliest stage of the proposal's development. Whilst the present intention is to remain debt free through this period, the Council will assess on a case-by-case basis what financing options exist and which represents the best value for money.

Guidance issued by the Government requires all Councils to be transparent where they plan to use capital receipts flexibility to part fund individual projects. As the Council currently makes significant revenue contributions to fund its capital programme, the Council presently does not intend to make use of this flexibility.

The Director and Corporate Services is satisfied that the proposed capital programme is prudent, affordable and sustainable and this is set out in more detail in the Council's 5-year financial strategy.

## **Managing our assets**

To ensure that capital assets continue to be of long-term use, the Council has an asset management Plan (AMP) which provides the policy framework for the operational work of asset management, asset acquisition and disposal. The AMP was last renewed in 2016 and is pending a full review in order to ensure that the Council's assets efficiently deliver the required standards for provision of services and other operational needs. Stock condition surveys of all the Council's assets will help inform the repairs and maintenance and asset replacement programmes in future years.

### **Asset Replacement**

The Council recognises that it is not sufficient to simply provide for the initial purchase cost of capital assets. Investment in assets requires a long-term view to be taken of the cost of those assets across their entire lifespan.

The Council's revenue budget incorporates repairs and maintenance to council buildings, removing dependency on reserves to fund what is a recurring revenue cost. Commercial investments are let on fully repairing and insuring lease terms to protect the Council's assets.

Other lifecycle costs for all Council assets are forecast for 25 years and included in the Council's approved Asset Replacement Programme (ARP). An annual contribution from the Council's revenue budget to fund this programme is made equating to approximately one 25<sup>th</sup> of the projected total ARP cost.

### **Treasury Management**

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account and where it is economical to borrow in advance of spend.

In managing these funds, the Council has adopted the following risk statement

“As a debt free authority the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Treasury Code. Whilst fundamentally risk averse the Council will however accept some modest degree of risk.”

This means that, when investing its surplus cash, the Council does not limit itself to making deposits only with the UK Government and local authorities, it can, and does, invest in other areas such as money market funds and tradable instruments such as corporate bonds and pooled funds. The duration of such investments is always carefully considered to limit that risk of them having to be sold (although they may be) prior to maturity, mitigating the risk of the capital sum being diminished through price movements.

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Services and staff, who must act in line with the treasury management strategy approved by Council. Half yearly on treasury management activity is presented to the Corporate Governance and Audit Committee and Cabinet.

## Investments

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. The Council’s business model for holding treasury investments is designated as ‘hold to collect’, in that that Council holds these financial assets to collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. However, there is no absolute requirement that financial assets are always held until their maturity in all circumstances.

The Council prioritise security and liquidity over yield in holding Treasury investments. That is, it focusses on minimising risk rather than maximising returns.

Cash that is likely to be spent in the near term is invested securely to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments can be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

*Table 3: Forecast treasury management investments in £m (31 March)*

	2023	2024	2025	2026	2027
Near-term investments	23	23	23	23	22
Longer-term investments	40	45	45	45	45
<b>TOTAL</b>	<b>63</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>67</b>

*These figures do not account for any delays in timing of capital payments. Delays generally increase the available cash balances temporarily above forecast levels.*

## Borrowing

The Council does not borrow to invest primarily for financial return or make any investment or spending decision that will increase its capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

If the Council ever identified an expected need to borrow, it will review options for exiting relevant financial investments for commercial purposes and include this summary in the annual treasury management and investment strategy.

The Council is presently debt-free except for a small lease liability for multi-functional printers. It currently has no identified borrowing need other than that which might occur as part of routine working capital management.

The Council's detailed liability benchmark calculations are included in its Treasury and Investment strategy, summarised below

Table 4: Liability Benchmark forecast to 31 March 2027 (£m)

	2022 Actual	2023	2024	2025	2026	2027
Treasury Investments	113	85	81	81	82	83
Minimum Liquidity Allowance	(10)	(10)	(10)	(10)	(10)	(10)
(Liability)/ Investment Benchmark	103	75	71	71	72	73

Although our projections below incorporate some headroom for potential for borrowing should the need arise, funding options for major projects are assessed on a case by case basis by the Council's Financial Services Division. If any future projects are to be funded by borrowing, the project approval process will include the necessary actions to approve any necessary increase to these limits.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each of the following three financial periods. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Proposed Operational and authorised limits for borrowing (£M)

	2023/24	2024/25	2025/26	2026/27
Operational Boundary				
– borrowing	10	10	10	10
– PFI and leases	2	3	3	3
– <b>Total external debt</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>13</b>
Authorised Limit				
– borrowing	20	20	20	20
– PFI and leases	5	5	5	5
– <b>Total external debt</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>

Further details on borrowing are contained in the Council the treasury management strategy: <http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy>. The limits in this table are provisional until the 2023/24 strategy is approved by Full Council.

## Decision making

Treasury decisions are made in accordance with the Council’s constitution and the authorised scheme of delegation therein.

Responsibility for Treasury matters rests with the Council’s Director of Corporate Services who is the officer charged with ensuring compliance with the Regulatory and Professional framework applicable to Investments made by Local Authorities.

The control framework for Treasury and Investment activity is set by the Council’s Treasury and Investment strategy, which is reviewed and approved annually by Full Council. This is supported by operational guidelines within the Council’s Treasury and Investment management practices documents.

Reports of Treasury activity are made half-yearly to both the Council’s Corporate Governance and Audit Committee and the Cabinet. This includes a section on compliance with the limits and framework established by the Council’s Treasury and Investment strategy as well as performance reporting against benchmarks and other locally set indicators.

## Liabilities

Decisions on incurring new discretionary liabilities are taken by Divisional Managers in consultation with Director of Corporate Services and within the limits established by the Council’s Constitution and Treasury and Investment strategy. The risk of liabilities crystallising and requiring payment is monitored by financial services.



Further details on liabilities, contingent liabilities and guarantees can be found in the Council's statement of accounts: <http://www.chichester.gov.uk/statementofaccounts>

## Interest Rate Exposures

The Council is not exposed to risk associated with the maturity structure of borrowing but recognises that its Treasury investments are subject to risk from movements in interest rates. The Council manages this risk by ensuring an appropriate mix of short term fixed and variable rate investments and a portfolio of external investments in pooled funds.

## Provision for Repayment of External Debt

For new borrowing whether supported by the Government or not, provision for its repayment will be made over the estimated life of the asset for which the borrowing is undertaken.

This will be done on a straight-line basis in-line with the asset life determined for depreciation purposes (with a maximum asset life determined in line with CIPFA guidance) and the repayment provision commencing in the financial year following the one in which the asset becomes operational

Further details on the revenue implications of capital expenditure are published with the Council's revenue budget which is considered each year by Cabinet and Full Council.

## Service Investments

All service investments must demonstrate a clear contribution towards the Council's strategic objectives or delivery of statutory responsibilities.

Governance arrangements for any new investments are subject to the processes set out in the Council's constitution, including any delegation arrangements provided in that document.

The Council has limits on the service investments possible within its Treasury and Investment Strategy. These are shown in summary in the table below and readers should refer to the Treasury and Strategy for further information.

Category	2021/22 Actual Income %	2022/23 to 2026/27 Income %	Income Limit p.a £000	Upper lending Limit TOTAL £000
Company and Entity Loans	NIL	<1	145	1,000

Category	2021/22 Actual Income %	2022/23 to 2026/27 Income %	Income Limit p.a £000	Upper lending Limit TOTAL £000
Loans to local individuals	0.01	<1	145	1,000
Loans to employees	0.01	<1	75	500
Financial Guarantees	N/A	N/A	N/A	N/A
Overall			365	2,500

The limits above are set to ensure that the Council's service investments are affordable, prudent and proportionate to the Council's resources.

The uncertainty and substantial risks which are the backdrop of the current year financial, it is important that any new policy decisions consider and adhere to the Council's key financial principles regarding any growth and are measured against the Future Services Framework prioritisation tool. This is important considering the latest forecast for the medium term and the risks associated with some of the key assumptions.

The Council maintains a £4m minimum level of reserves which can be used to offset any unexpected costs or loss of income in relation to previous policy decisions, including the risks associated with service investments.

It is not possible to determine a limit for any financial guarantees in advance, however, no guarantee will be entered into without explicit consideration of the requirements of the Prudential Code and approval by both the s.151 officer and that required by the Council's constitution

Any fundamentally new or additional significant service investment outside those specified in the Council's Treasury and Investment strategy are required to have direct Council approval. As part of this the Council's s.151 officer will:

- review and confirm the legality of the proposed investment (using independent and external advice as necessary), the nature of the transaction and that all authorities to proceed have been obtained;
- satisfy themselves that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests;

- ensure that relevant due diligence has taken place;
- ensure that counterparties are judged satisfactory in the context of the organisation's creditworthiness policies and that limits have not been exceeded; and,
- ensure that the terms of any transactions have been fully checked against the market and have been found to be competitive, or that there are sufficient and valid reasons for the Council to depart from market competitive rates

Further details on service investments are within the Council's investment strategy, which is published with the Council's Treasury management strategy:

<http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy>.

## **Commercial Activities**

The Council's existing property portfolio generates income of approximately £2.5m million per year for the General Fund revenue account.

Most of this income (£1.6m) comes from properties held primarily to support the provision of local services, not to make a profit or for any appreciation in value. Examples of these activities include rents and licence fees from industrial units, commercial and industrial ground leases, shops, offices and other lettings to sports, community, and voluntary organisations.

Only a small proportion of the assets involved are held because rental income and/or capital appreciation were substantial factors in the decision to acquire or hold them. These are classified as 'investment properties' and disclosed in the Council's statement of accounts. These assets generate around £900k per annum in income which is used to support front line services.

General capital investment in commercial property is likely to take three main forms.

- Freehold or Long Leasehold Purchases.
- Commercial development of property with the Council retaining ownership and receiving rental income.
- Partnerships where another party undertakes the development and the Council (as landowner) receives a proportion of the rental value.

Land and property acquisition and development is also a means of influencing regeneration and the economic development within the District. Therefore, while one objective may be to increase the financial resources the Council has available, appropriate investment can also extend service delivery or provide community improvement generally.

For these reasons the Council has an approved investment opportunities protocol that gives priority to acquiring property in the Chichester District, albeit opportunities to acquire properties elsewhere are considered if a justifiable case exists for doing so.

The protocol also provides specific guidance on the enhanced scrutiny required, including:

- Acquisitions should be within the District Council's area, or sufficiently close by to be easily managed
- Preference is given to acquisitions which achieve a community or economic benefit and strengthen the local economy
- The acquisition provides an acceptable rate of return for the additional risk taken on, and will not increase the Council's ongoing revenue costs in the longer term
- Where necessary, Specialist advisers are to be employed to provide advice and act for the Council

The Council aims to acquire land and property for the longer term (10 years or more) to reap the benefit of sustained rental income and capital appreciation as land and property values recover from the effects of economic downturn because of Covid-19, continued uncertainty relating to Brexit and more recently the Ukraine war and cost of living crisis.

There is a recognition that, in undertaking investments primarily for financial return, the Council needs to ensure that these decisions are subject to enhanced decision making and scrutiny because of the additional risk being taken on and the potential impact on the sustainability of the authority. The principal risk exposures in commercial property-based revenue strategy are:

- A downturn in the property market. This could lead to falling rents or higher vacancies, potentially meaning that the Council will need to find other sources of revenue or reduce costs to balance its budgets. This scenario could also lead to falling property values, with a risk that the asset could be worth less than the purchase price.
- Government intervention to set limits on commercial activities. This would force the Council to react, which may be against the Council's long-term interests.
- Lack of expertise in specialist areas, leading to poor acquisition decisions.

Investment purchases are evaluated using a scoring matrix approach, with a minimum score required of least 100 out of a maximum score of 168 (60th percentile). The score reflects, amongst other things, tenancy strength, tenure, occupiers lease length and repairing terms.

Decisions on commercial investments are made by Cabinet in line with the criteria and process set out in the Council's investment opportunities protocol.

For 2022-23 the Council has followed the recommendations of the former Ministry of Housing, Communities and Local Government, and included an indicator for the ratio of commercial income to net service expenditure in its investment strategy.

The income from commercial investments is expected to remain below 10% of the Council's net revenue stream in line with the prudential indicator of proportionality for commercial investments. It should be noted that forecasts for commercial income levels for 2023-24 and future years are not available at the time of writing this strategy. The figures quoted are the best estimates assuming no change, which is felt acceptable given the present budgetary intentions of the Council.

Further details on this and general risk management arrangements are contained in the Council's investment strategy and Treasury management strategy:

<http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy>

## **Other long-term liabilities**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees do carry risks to the Council and as such, they are subject to separate risk mitigation procedures before they are entered into.

The only guarantees provided to date by the Council relate to possible pension liabilities associated with TUPE transfers of staff from public to private sector where staff have remained within the Local Government Pension Scheme.

In these circumstances the provision of a guarantee is a requirement of the Pension Fund. The financial risk of each guarantee is usually mitigated by a bond which is intended to cover all but the most extreme possible financial exposure.

Other than to cover mandatory requirement under the Local Government Pension Scheme, the Council does not expect to provide financial guarantees to, or on behalf of, any third party.

The Council has disclosed total long term liabilities of £9.47m in its last statement of accounts. Much of this figure (£5.64m) relates to section 106 contributions which are fees paid by applicants seeking planning permission for the mitigation of the impact of new homes on the local community and infrastructure.

## Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions and recommendations. The Divisional Manager for Property & Growth and the Valuation & Estates Manager are both chartered surveyors and registered valuers and who have significant post qualification experience. The Senior Estates Surveyor and Estates Surveyor are also both chartered surveyors.

Each member of the Estates team undertakes continuing professional development (CPD) to ensure their skills and knowledge is suitably updated in order to remain professionally competent. This is in the form of structured learning that has clear learning objectives and identified outcomes to ensure that appropriate levels of experience and skills are obtained for the acquisition and ongoing management of our investment portfolio.

All members of the RICS must undertake and record a minimum number of hours of relevant CPD per annum as well as maintaining a relevant and current understanding of professional and ethical standards. Where necessary, specialist advisers may be employed to provide advice and act on behalf of the Council with additional due diligence, scrutiny and oversight provided by the Estates team.

The Council currently employs Arlingclose Limited as Treasury Management advisors, and individual property consultants for cases where specialist property advice is required such as major development schemes. It has also elected where possible to be treated as a professional investor under the relevant financial regulations.

For Treasury skills and knowledge, the Council employs a matrix of requirements that comprise requirements for core knowledge across the following areas:

- Accounting and Regulation
- Ethics and Corporate Governance
- Risk Management
- Treasury Operations
- Strategic Financial Management

These categories are based on the Association of Corporate Treasurers (ACT) competency framework (Global Treasury Standards). They are adapted for the public sector environment and incorporated into training programmes for Members and Officers.

The Council has applied for, and received, MIFID2 professional client status for relevant investments in Money Markets and external Pooled Funds. This process to achieve MIFID2 professional client status involves an assessment by the financial institution of the Council's knowledge and skills available against the investment activity proposed.